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filed 12/27/74

THE WHITE HOUSE

DECISION

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: ROY L. ASH

SUBJECT: HEW Appeal of 1976 Presidential Decisions

We have reviewed the HEW memorandum which, although it aggregates the individual issues, appeals many of your initial 1976 budget decisions.

Your initial decisions would provide HEW with budget authority of \$124.4 billion and outlays of \$120.1 billion -- increases of \$9.9 billion in budget authority and \$11.6 billion in outlays over the 1975 levels. HEW is appealing for an add-back of \$1.1 billion in budget authority and \$824 million in outlays. HEW's appeal acknowledges the validity of higher estimates for uncontrollable programs resulting in a net increase in outlays of \$412 million over its earlier budget request.

In order to provide an offset of \$700 million to fund items in his appeal, Secretary Weinberger proposes legislation to limit the statutory Social Security adjustments to 8 percent. This compares to the estimated cost-of-living increase of 9 percent otherwise required for July 1, 1975. This is inconsistent with your public commitment to protect those hardest hit by inflation, e.g., the aged on fixed incomes. The Secretary's letter recognizes your public commitment, but would apply it to programs which are in fact neither income tested nor provide uniform benefits. We believe there is no chance of congressional acquiescence in such a proposal. In fact, such a proposal could stimulate an immediate statutory increase before the July 1, 1975, date.

We recommend that you reaffirm all but one of your initial decisions and reject HEW's new proposals for the reasons discussed in Attachment B. Our recommendation would accept only the HEW appeal of \$12 million for NIH biomedical research.

Attachment A is a summary table that compares your initial decisions, the HEW appeal, and the OMB recommendation on those items appealed by HEW. Attachment B is a brief analysis of the proposals at issue and incorporates in full HEW's specific arguments for each of its appeals. HEW's appeal memorandum is at Attachment C.

Attachments

1976 Budget--Summary TableDEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
(\$ in millions)

| <u>HEW Proposal</u> | | 1974 <u>Actual</u> | BA in 1975 Pres. <u>Decisions</u> | 1976 | | |
|---|----|-----------------------|--|---|-----------------------|-----------------------|
| | | | | <u>Initial Pres. Determi- nations</u> | <u>HEW Appeal</u> | <u>OMB Recom.</u> |
| Social Services | BA | 1,345 | 1,829 | 1,300 | 1,921 | 1,300 |
| Health Services for the Poor and Disadvantaged Health Care system (HSA and ADAMHA) | BA | 2,049 | 1,847 | 1,681 | 1,952 | 1,681 |
| Preventive Health (CDC and FDA) | BA | 307 | 333 | 324 | 341 | 324 |
| Health Research | | | | | | |
| NIH | BA | 1,258 | 1,159 | 1,159 | 1,171 | 1,171 |
| NCI Appeal | BA | 527 | 565 | 590 | (899*) | 590 |
| Education Grants to States (State Departments of Education, Handicapped Educa- tion, and State Student Incentive Grants) | BA | 339 | 291 | 283 | 392 | 283 |
| Vocational Reha- bilitation Grants | BA | 734 | 725 | 736 | 776 | 736 |
| Other HEW Program Programs | BA | <u>94,237</u> | <u>107,794</u> | <u>118,342</u> | <u>118,343</u> | <u>118,342</u> |
| Total BA | | 100,796 | 114,554 | 124,415 | 125,486 | 124,427 |
| Total O | | 93,635 | 108,498 | 120,055 | 120,871 | 120,064 |

* Cancer Institute appeal amount; HEW accepts the Presidential decision.

Individual Discussions
of
HEW Appeal Items

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
(\$ in millions)

OMB

| <u>Program</u> | | 1974 <u>Actual</u> | 1975 <u>Presidential Decision</u> | 1976 | | |
|----------------|----|-----------------------|--|--|-----------------------|-----------------------|
| | | | | <u>Initial Presidential Decision</u> | <u>HEW Appeal</u> | <u>OMB Recom.</u> |
| Social | BA | 1,345 | 1,829 | 1,300 | 1,921 | 1,300 |
| Services | O | 1,392 | 1,806 | 1,300 | 1,921 | 1,300 |

Initial Presidential Decisions

Your initial decision rests on the principle that a heavier sharing of the costs of social services by State and local governments will encourage improved administration and a more rigorous evaluation of the worth of these services at the local level. This incentive is consistent with the proposed new legislation which allows more management discretion at the local level. The 50% sharing of these costs by the States by 1977 is consistent with legislation you submitted to require the same matching in 1975 for medical and social services financed through the Medicaid program and the AFDC income support program. This program has never been able to demonstrate the efficacy of the services financed to a degree which would justify a higher Federal funding share than that provided under Medicaid.

HEW Appeal

"The allowance assumes that we will seek legislation to reduce Federal matching for social services under Public Assistance from 75 percent to 65 percent in 1976 and to 50 percent in 1977. Moreover, the dollar allowance is based on the assumption that States will spend no more than they now do on social service programs. This would result in a 25 percent reduction in combined Federal and State spending on social services in 1976. While it can be agreed that the current program is not as effective as it should be, a reduction of this magnitude is bound to have a severe impact on the poor.

"We have fought hard for legislation reforming the social services program, and such a bill recently passed the House with Administration backing. If this bill is not passed at this session of Congress, all of our prior negotiations will be down the drain if we attempt to cut Federal matching next

year. If it does pass, and an amendment is submitted next year, we will be accused of acting in bad faith and the proposal will very likely be ignored. Thus, I strongly recommend that you reconsider the decision to submit legislation reducing Federal matching for social services.

"Furthermore, as you know, there is a \$2.5 billion ceiling on social services which simply means that if the States offer qualified services programs, they can draw the full amount. Therefore, all of our social services figures are estimates at best, and the full \$2.5 billion may be required in any event. By the same token, we could arbitrarily lower our estimates of the total program level, as OMB has done and thus we would not need to add the full \$621 million in outlays."

OMB Recommendation

We recommend that you affirm your initial decision, which assumes that State spending will not decline and may even increase slightly. If in fact the States increase their spending substantially, Federal spending would have to rise under the new matching formula. Your initial decision does make Federal matching rates for medical and social services consistent.

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
(\$ in millions)

OMB

| <u>Program</u> | 1974 <u>Actual</u> | 1975 <u>Presidential Decision</u> | 1976 | | |
|--|-----------------------|--|--|-----------------------|-----------------------|
| | | | <u>Initial Presidential Decision</u> | <u>HEW Appeal</u> | <u>OMB Recom.</u> |
| "Health Services for the Poor and Disadvantaged" and "Improving the Health Care System" (HSA and ADAMHA) | BA 2,049 O 1,539 | 1,847 1,960 | 1,681 1,839 | 1,952 1,969 | 1,681 1,839 |

Initial Presidential Decision:

Your initial decision provided for:

- a mandatory 20% cost sharing on the part of grant recipients for alcoholism, maternal and child health, family planning, migrant health, and drug abuse service projects;
- new starts in alcohol, drug abuse, and mental health research at \$12 million within the \$122 million total;
- a "no-new-starts-policy" beyond 8 year continuation support for the 600 existing community mental health centers; and
- maintaining the National Health Service Corps and Health Maintenance Organization demonstration programs at the 1975 levels.

These initial determinations reflected financing through Medicare and Medicaid as the appropriate Federal role and would encourage greater cost sharing on the part of grant recipients. In addition, the decisions reflected a policy of limiting direct Federal financing programs. This is particularly appropriate because, unlike Medicaid, these programs are not limited to the poor through income tests.

HEW Appeal:

"Health Services for the Poor and Disadvantaged"--The allowance assumes that we will seek legislation to increase State and local matching for the Department's special health service programs, including Neighborhood Health Centers, Maternal and Child Health, Migrant Health, Family Planning, Alcoholism and Drug Abuse. In my view, this is not a feasible proposal and would result in an arbitrary reduction of services to

people not now properly served by the Nation's health service delivery system. I believe that these programs should be held in place until Comprehensive Health Insurance is enacted and implemented. We have consistently maintained that insurance was a necessary and effective substitute for these programs, not that they were ineffective or unnecessary in themselves.

"Improving the Health Care System"--The allowance would cut back the Department's efforts to change the health delivery system to make it more responsive to National needs. I am particularly concerned that the National Health Service Corps be permitted to attract more health workers to rural areas, that a reasonable base be established for health services research, that the initial effort to encourage the development of HMO's not be stopped before it really gets started, and that efforts to improve health statistics move forward. Better data will assist our development of a comprehensive health insurance program and the improvement of existing health delivery systems.

OMB Recommendation:

HEW proposes, in effect, to expand the Federal role in direct delivery of health services.

We recommend affirming the initial Presidential decision on a grantee cost sharing of narrow categorical health service delivery programs in light of the Federal Government's \$22 billion in financing programs -- Medicare and Medicaid. Such a strategy stressed a Federal role limited -- in the area of health services -- to financing through national programs rather than a series of project grants to a few favored grantees who fortuitously receive grants while citizens of other communities are limited to the more uniform financial assistance available under Medicare and Medicaid.

JMB

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
(\$ in millions)

| <u>Program</u> | | 1974 <u>Actual</u> | Presidential <u>Decision</u> | 1976 | | |
|--|---------|-----------------------|---------------------------------|--|-----------------------|-----------------------|
| | | | | <u>Initial Presidential Decision</u> | <u>HEW Appeal</u> | <u>OMB Recom.</u> |
| Preventive Health (FDA and CDC) | BA O | 307 296 | 333 325 | 324 339 | 341 350 | 324 339 |

Initial Presidential Decision

Your initial decision held food and drug inspections at the 1975 funding levels. It would, however, require a cost sharing of 20% in venereal disease and immunization projects by grant recipients.

HEW Appeal

"The allowance would halt the expansion of the Food and Drug Administration's consumer protection programs and reduce the Department's efforts to control venereal and other communicable diseases by 20 percent below current levels. We have made significant progress in these areas in recent years and we do not believe that this progress should be halted or reversed in 1976."

OMB Recommendation

We recommend affirming the original allowance, on the grounds that decisions on program levels in FDA cannot be definitively related to degrees of consumer health and safety. There is, for example, no objectively "right" inspection rate or level. Moreover, necessary program initiatives or expansions can probably be provided through reallocations from lower priority program areas. Finally, as compared to other areas (e.g., occupational cancer research), FDA is relatively well-funded at the allowance level.

We also recommend reaffirming your initial decision to reduce venereal disease and immunization project grant funding by 20% and require a 20% grantee match on the grounds that (a) it encourages tighter management on the part of grantees and more vigorous evaluation of program worth; (b) the Federal Government supports venereal disease and immunization activities primarily --and in substantially greater amounts than with project grants --through Medicaid; and (c) direct Federal project grant funding represents only a tiny portion of total State and local resources devoted to venereal disease and immunization activities.

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
(\$ in millions)

| | | 1976 | | | | |
|--------------------------|----|--------------|--------------|--------------|---------|--------|
| | | 1975 | Initial | | HEW/NCI | OMB |
| 1974 | | Presidential | Presidential | Presidential | Appeal | Recom. |
| Actual | | Decision | Decision | Decision | | |
| "Health Research" | | | | | | |
| NIH | BA | 1,258 | 1,159 | 1,159 | 1,171 | 1,171 |
| | O | 1,180 | 1,299 | 1,162 | 1,171 | 1,171 |
| NCI Appeal | BA | 527 | 566 | 590 | 899 | 590 |
| | O | 423 | 553 | 580 | 746 | 580 |

Initial Presidential Decision:

Your initial decision held NIH at the 1975 overall funding level in 1976, but increased the National Cancer Institute by \$24 million over the 1975 level. Within the total allowance, research training funds were limited to support for 1,000 new postdoctoral fellowships.

HEW Appeal:

485 / 527 / 566 / 590

The allowance for health research would hold all efforts outside the Cancer Institute to the exact dollar level of the 1975 revised estimate. This is an implicit 10 to 15 percent reduction in program output. Because we believe that other health programs have a higher priority than research this year, we do not appeal this general result. However, we would like an additional \$12 million to carry out the new research mandated by legislation in areas such as aging, diabetes, and sudden infant death.

NCI Appeal: (from Dr. Rauscher, NCI Director)

I feel compelled to appeal again the enormous discrepancy between our request and what is currently to be included in the President's 1976 Budget Request. The justification for this appeal is contained in the material submitted to OMB on November 29, 1974, and Mr. Benno Schmidt's November 22, 1974, letter to the President. I will simply summarize the main points:

1. The original request of \$898.5 million and 2,366 positions is the amount necessary to make maximum progress in our fight against cancer. A minimum of \$786 million and 2,225 positions is needed to allow the program to progress in an orderly way.

2. The original request included \$68.5 million for the new Cancer Control Program. This amount is required to apply now the latest research findings to persons with cancer. This amount

is included in the \$898.5 million noted above. The Cancer Control share at the \$786 million level is \$57 million.

3. We respectfully disagree with the policies limiting our use of funds for construction, training and cancer centers. The NCI and its advisors are in the best position to decide on the optimal use of these funds for the cancer program within the total finally appropriated.

This appeal is fully supported by the President's Cancer Panel and National Cancer Advisory Board. We appreciate the opportunity to call these matters to your attention and stand ready to discuss them with you at any time.

OMB Recommendation:

We recommend that you grant the HEW appeal to provide a \$12 million increase in NIH research other than Cancer for legislatively "mandated" studies. HEW accepts your initial decisions on training policy.

With regard to the Cancer Institute, we recommend that you reaffirm your decision to provide a \$24 million increase over the 1975 level and that you reaffirm the policies within the original decision.

The Science Advisor has recommended a \$30 million increase for all health research without specifying particular areas.

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
(\$ in millions)

| <u>Program</u> | | <u>1974</u> <u>Actual</u> | <u>1975</u> <u>Presidential</u> <u>Decision</u> | <u>Initial</u> <u>Presidential</u> <u>Decision</u> | <u>HEW</u> <u>Appeal</u> | <u>OMB</u> <u>Recom.</u> |
|------------------------------------|---------|------------------------------|---|--|-----------------------------|-----------------------------|
| "Education Grants to States" | BA 0 | 339 279 | 291 295 | 283 319 | 392 332 | 283 319 |

Initial Presidential Decisions

HEW

Your initial decision would:

- Carry out the 1975 decision to terminate Federal funding (-\$39 million) for general operating support to State Departments of Education.
- Require in education for the handicapped that State and local education agencies to provide 50% of the grants for operational support programs and shifts the \$25 million saved from that action to innovative capacity building projects (-\$25 million).
- Terminate \$20 million in Federal matching funds for State Student Aid grants which treat students in different States unevenly and often do not allow the student to apply the grant to the school of his choice. This approach should be considered as part of an overall Federal policy on higher education now under review and, if proposed, should be designed equitably.

HEW Appeal

"I'm asking you to restore proposed budget reductions in the education support services grant consolidation (+\$40 million), formula grants for the education of the handicapped (+\$25 million), and State student incentive grants (+\$44 million). The present allowance for grants consolidation is below the amount needed to trigger consolidation and would require a legislative amendment to HR-69, which stands no chance of being accepted.

The allowance for the handicapped would reduce current formula funding by 50 percent. The allowance for State student incentive grants would terminate a program which provides incentives to States to supplement Federal funds for student aid, the very direction which I believe we need to go in order to improve our student aid strategy. While I am not appealing the \$530 million allowance for vocational education, I am afraid that we have little chance to achieve consolidation within that budget level, because we would need new legislation."

OMB Recommendation

Reaffirm your original decision to eliminate Federal funding for routine State administrative functions; require State and local education agencies to share in the funding of operational services; and, suspend funding of a poorly designed, inequitable and marginal student grant program in favor of the Basic Opportunity Grant (BOGs) program and a possible new initiative in higher education.

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
(\$ in millions)

| <u>Program</u> | <u>1974 Actual</u> | <u>1975 Presidential Decision</u> | <u>Initial Presidential Decision</u> | <u>HEW Appeal</u> | <u>OMB Recom.</u> |
|---------------------------------|------------------------|---|--|-----------------------|-----------------------|
| Vocational Rehabilitation BA | 734 | 725 | 736 | 776 | 736 |
| Grants | 0 727 | 762 | 751 | 785 | 751 |

Initial Presidential Decisions

Your initial decision holds the program at roughly the current level. This reflects serious concerns about adequacy of program management by the States, and a proposal to return control of funding levels to the Appropriations Committees.

HEW Appeal

"The allowance holds grants to States for vocational rehabilitation services to the 1975 level of \$680 million. We believe that the full authorization of \$720 million should be funded in 1976 because of the requirements of the 1973 act to increase services to the more severely disabled. Even at \$720 million, the total number served in this program will decline due to this new requirement and inflation."

OMB Recommendation

We recommend you reaffirm your initial determination to hold funding at the 1975 level and seek appropriation language that would overcome the mandatory spending requirement of the authorizing legislation.

1976 Budget

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
(\$ in millions)

| <u>Program</u> | 1975 | | <u>1976</u> | |
|--|---------------------|------------------|---------------|---------------|
| | <u>Presidential</u> | <u>Allowance</u> | <u>HEW</u> | <u>OMB</u> |
| | <u>Decision</u> | | <u>Appeal</u> | <u>Recom.</u> |
| Vocational Education Legislative Structure | | | | |
| Formula Grants | BA 495 | 373* | 495* | 373* |
| Project Grants | BA <u>35</u> | <u>160</u> | <u>38</u> | <u>160</u> |
| Total | 530 | 533 | 533 | 533 |

* Includes permanent appropriation.

Initial Presidential Decisions

Your initial decision provided \$530 million for Vocational Education programs. HEW is not appealing this level. However, your decision did not address the proposed structure for Vocational Education programs.

The original OMB allowance provided operational support for Vocational Education programs at a lower level than in 1975 and allowed HEW to increase its capacity building efforts in the innovative projects area. The Federal role would be moved to one of limited grants (3 years) for research, innovation and dissemination and away from financing a portion of service delivery. The allowance for the operational support Basic Grant program provided a 60/40 State Federal matching requirement and decreased the Federal share to zero by 1980. A 50/50 match would be required for innovative grants -- down from 80 to 90%.

HEW Appeal

-- This issue concerns the distribution of funds for vocational education in the context of proposed legislation.

- Administration policy has been to seek consolidation of vocational education programs. To that end, the Department has developed a bill that has considerable support from the vocational education lobby and interested Congressional staff. To drastically shift funding away from the consolidation approach is in direct contrast to our previous position.
- The OMB distribution would shift the primary emphasis in vocational education away from formula grants administered by the States to project grants.
- One effect of the OMB allowance is to move more control of vocational education funds to the Federal Government and away from the States, changing the historic Federal-State relationship in this area.
- For this reason, the OMB proposal can be expected to create resistance on the part of the States, the vocational education lobby, and supporters in the Congress.
- This change in the Federal role is an obvious move away from the New Federalism in which States have been given greater authority over the use of Federal funds.
- Bills have already been introduced on the Hill similar to HEW's draft legislation which have widespread support among the vocational education community. These bills incorporate HEW's proposed structure and distribution of funds for vocational education programs.
- HEW's bill was developed in a lengthy process involving discussion with the interest groups and appropriate Hill staff. To change suddenly the structure, content, and concept of the bill when it is submitted to the Hill in January will severely damage our credibility and capacity to accomplish any negotiations with the Hill and outside groups. It will be difficult enough to persuade the Congress to accept consolidation without the funding increase originally requested.

OMB Recommendation

We recommend no change from the structure provided for in the allowance. It recognizes that the primary responsibility for vocational education rests with the States, not the Federal government. Further, we do not understand HEW's contention that an Administration approach has been set and that the allowance would shift from that position.

While the allowance would increase funds in the innovative area by fourfold the greatest change is in emphasis. Programs proposed for inclusion under the innovation category would require innovative or capacity building approaches, problems would be identified, solutions proposed and a limited (3 year) life for the project would be planned at the outset.

HEW Personnel *

| | <u>Actual</u> <u>1974</u> | <u>1975</u> | <u>1976</u> |
|-------------------------------|------------------------------|------------------|------------------|
| Initial Presidential Decision | -- | 46,690 | 46,815 |
| HEW Appeal (increase) | -- | +558 | +1,518 |
| OMB Recommendation | 46,658 | 47,000 (+310) | 47,500 (+685) |

Although Secretary Weinberger's appeal memorandum does not address personnel, we are informally advised that he proposes the increases shown, excluding Social Security, which is covered in a separate decision memorandum. We recommend the compromise position indicated above.

| | <u>1975</u> | <u>1976</u> |
|--------------------------------|---------------|---------------|
| * Excludes: | | |
| St. Elizabeths Hospital | 3,911 | 3,911 |
| Office of the Secretary | 5,366 | 5,890 |
| Social Security Administration | <u>70,871</u> | <u>70,871</u> |
| | 80,148 | 80,672 |



THE SECRETARY OF HEALTH, EDUCATION, AND WELFARE.
WASHINGTON, D. C. 20201

DEC 11 1974

MEMORANDUM FOR THE PRESIDENT:

SUBJECT: Fiscal Year 1976 Budget Allowance

I have received from OMB staff the 1976 budget allowance for the Department. This allowance would provide the Department with 1976 outlays of \$120.1 billion. I am asking you to restore \$824 million in outlays and \$1.1 billion in budget authority. This would be almost completely offset by \$700 million in savings if you agree to propose an 8 percent limit on the cost-of-living increase for Social Security and SSI program benefits, as I mentioned to you at our meeting today on Social Security. If you were to propose a limit of 7.5 percent, the \$1 billion saving would more than offset these requested restorations.

I strongly support your effort to maintain fiscal constraint in the Government's budget. When we submitted our budget on September 30, it was below the OMB outlay planning ceiling. Even with the restorations we are seeking (and even without the offset mentioned above), the Department's 1976 request has about the same impact on the 1976 budget deficit as contemplated in the OMB ceiling because inflation will bring us an extra \$2.5 billion in revenues for the Social Security trust funds. In any event, we believe that the additional \$824 million in outlays we are requesting will not significantly compromise your fiscal policy objectives if our proposed offset is adopted.

There are certain themes in the allowance which I believe move the Department's programs in the wrong direction and would convey a damaging message to Congress and the public.

- Several proposed budget cuts, principally in health and social services programs, will hit the poor and disadvantaged disproportionately. You and I have stated publicly that the poor should not be required to do more than their fair share in the fight against inflation. This commitment should not be abandoned.
- Several of the reductions appear to be based on the assumption that States and localities can pay a larger share of program costs. Our latest forecast of State and local fiscal capacity indicates that the recent surpluses have been rapidly eroded by economic conditions. Decisions already made in the 1976 budget revision shift substantial costs to State and local governments. Therefore, proposals to increase cost sharing are more than likely to result in Congressional inaction at best.
- The allowance for the Department's education programs suggests that the move toward the new Federalism has been reversed. Program consolidation can only be started under HR-69, if we meet a defined level of funding which the proposed budget would not reach. Also, funds would be shifted from broad formula grants to States and localities to project grants managed by Washington.
- Two decisions--the proposal to ask for less than minimum funding to trigger one part of education consolidation and a decrease in Federal matching for social services--would destroy painstakingly developed compromises with Congress. These actions would be interpreted as bad faith, and Administration abandonment of prior commitments, and would make effective negotiation with the Congress less possible in the future.

-- The proposed budget would hold the Department's controllable health programs to the 1975 reduced level which is well below the 1975 appropriation bill signed this week. It is not only the markedly reduced program level that concerns us, but the many specific line item reductions that are proposed--more than 30 out of some 60 that make up our detailed estimates. This approach can be perceived by key members of our health agencies as a diminution of their judgement and responsibilities in professional areas. For that reason, we strongly urge that we have much greater flexibility in using the funds allocated to us.

When we meet to discuss the 1976 allowance for HEW, I would like to discuss restorations in the following areas:

Social Services (+\$621 million in budget authority and outlays)

The allowance assumes that we will seek legislation to reduce Federal matching for social services under Public Assistance from 75 percent to 65 percent in 1976 and to 50 percent in 1977. Moreover, the dollar allowance is based on the assumption that States will spend no more than they now do on social services programs. This would result in a 25 percent reduction in combined Federal and State spending on social services in 1976. While it can be agreed that the current program is not as effective as it should be, a reduction of this magnitude is bound to have a severe impact on the poor.

We have fought hard for legislation reforming the social services program, and such a bill recently passed the House with Administration backing. If this bill is not passed at this session of Congress, all of our prior negotiations will be down the drain if we attempt to cut Federal matching next year. If it does pass, and an amendment is submitted next year, we will be accused of acting in bad faith and the proposal will very likely be ignored. Thus, I strongly recommend that you reconsider the decision to submit legislation reducing Federal matching for social services.

Furthermore, as you know, there is a \$2.5 billion ceiling on social services which simply means that if the States offer qualified services programs, they can draw the full amount. Therefore, all of our social services figures are estimates at best, and the full \$2.5 billion may be required in any event. By the same token, we could arbitrarily lower our estimates

of the total program level, as OMB has done and thus we would not need to add the full \$621 million in outlays.

Health Services for the Poor and Disadvantaged (+\$189 million in BA, \$83 million outlays)

The allowance assumes that we will seek legislation to increase State and local matching for the Department's special health service programs, including Neighborhood Health Centers, Maternal and Child Health, Migrant Health, Family Planning, Alcoholism and Drug Abuse. In my view, this is not a feasible proposal and would result in an arbitrary reduction of services to people not now properly served by the Nation's health service delivery system. I believe that these programs should be held in place until Comprehensive Health Insurance is enacted and implemented. We have consistently maintained that insurance was a necessary and effective substitute for these programs, not that they were ineffective or unnecessary in themselves.

Improving the Health Care System (+82 million BA, \$47 million outlays)

The allowance would cut back the Department's efforts to change the health delivery system to make it more responsive to National needs. I am particularly concerned that the National Health Service Corps be permitted to attract more health workers to rural areas, that a reasonable base be established for health services research, that the initial effort to encourage the development of HMO's not be stopped before it really gets started, and that efforts to improve health statistics move forward. Better data will assist our development of a comprehensive health insurance program and the improvement of existing health delivery systems.

Preventive Health (+\$17 million BA, \$11 million outlays)

The allowance would halt the expansion of the Food and Drug Administration's consumer protection programs and reduce the Department's efforts to control venereal and other communicable diseases by 20 percent below current levels. We have made significant progress in these areas in recent years and we do not believe that this progress should be halted or reversed in 1976.

Health Research (+\$12 million BA, \$9 million outlays)

The allowance for health research would hold all efforts outside the Cancer Institute to the exact dollar level of the 1975 revised estimate. This is an implicit 10 to 15 percent reduction in program output. Because we believe that other health programs have a higher priority than research this year, we do not appeal this general result. However, we would like an additional \$12 million to carry out the new research mandated by legislation in areas such as aging, diabetes, and sudden infant death.

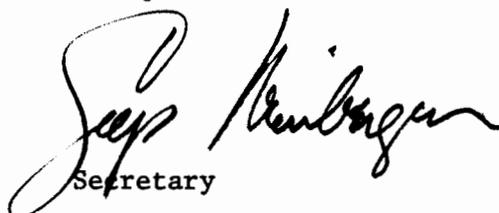
Education Grants to States (+\$109 million budget authority,
\$13 million in outlays)

I'm asking you to restore proposed budget reductions in the education support services grant consolidation (+\$40 million), formula grants for the education of the handicapped (+\$25 million), and State student incentive grants (+\$44 million). The present allowance for grants consolidation is below the amount needed to trigger consolidation and would require a legislative amendment to HR-69, which stands no chance of being accepted.

The allowance for the handicapped would reduce current formula funding by 50 percent. The allowance for State student incentive grants would terminate a program which provides incentives to States to supplement Federal funds for student aid, the very direction which I believe we need to go in order to improve our student aid strategy. While I am not appealing the \$530 million allowance for vocational education, I am afraid that we have little chance to achieve consolidation within that budget level, because we would need new legislation.

Vocational Rehabilitation Grants (+\$40 million budget authority,
\$32 million outlays)

The allowance holds grants to States for vocational rehabilitation services to the 1975 level of \$680 million. We believe that the full authorization of \$720 million should be funded in 1976 because of the requirements of the 1973 act to increase services to the more severely disabled. Even at \$720 million, the total number served in this program will decline due to this new requirement and inflation.


Secretary

HEW / Appeal package

SIGNATURE TAB

This sheet will precede the signature page in assembled correspondence.

SIGNATURE

CONCURRENCE TAB

This sheet will precede the concurrence page in assembled correspondence.

THE WHITE HOUSE
WASHINGTON

December 27, 1974

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: ROY L. ASH
FROM: JERRY H. JONES
SUBJECT: HEW Appeal of 1976
Presidential Decisions

Your memorandum to the President on the above subject has been reviewed and the following notations were made:

Social Services.
OMB

Health Services for the Poor and Disadvantaged and
Improving the Health Care System (HSA and ADAMHA).
OMB

Preventive Health (FDA and CDC).
OMB

Health Research.
No notation made

Education Grants to States.
HEW

Vocational Rehabilitation Grants.
Initial Presidential Decision

Vocational Education Legislative Structure.
OMB.

Please follow-up with the appropriate action.

Thank you.

cc: Don Rumsfeld